BlackRock Inc.
Form 10-Q
November 08, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended September 30, 2007

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from ______ to ______.

Commission file number 001-33099

BlackRock, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**32-0174431**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

40 East 52nd Street, New York, NY 10022

(Address of principal executive offices)

(Zip Code)

(212) 810-5300

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of October 31, 2007, there were 116,824,060 shares of the registrant s common stock outstanding.

BlackRock, Inc.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

BlackRock, Inc.

Condensed Consolidated Statements of Financial Condition

(Dollar amounts in thousands)

(unaudited)

	September 30, 2007	December 31, 2006
Assets		
Cash and cash equivalents	$ 2,320,579	$ 1,160,304
Accounts receivable	1,155,996	964,366
Due from affiliates	96,606	113,184
Investments	2,680,751	2,097,574
Separate account assets	4,829,861	4,299,879
Deferred mutual fund sales commissions, net	178,407	177,242
Property and equipment, net	250,481	214,784
Intangible assets, net	5,789,240	5,882,430
Goodwill	5,454,521	5,257,017
Other assets	322,092	302,712
Total assets	$ 23,078,534	$ 20,469,492
Liabilities		
Accrued compensation	$ 807,870	$ 1,051,273
Accounts payable and accrued liabilities	776,928	753,839
Due to affiliates	245,890	243,836
Short-term borrowings	450,000	
Long-term borrowings	946,879	253,167
Separate account liabilities	4,829,861	4,299,879
Deferred taxes	1,792,199	1,738,670
Other liabilities	501,716	237,856
Total liabilities	10,351,343	8,578,520
Non-controlling interest	1,458,879	1,109,092
Stockholders equity		
Common stock ($0.01 par value, 500,000,000 shares authorized, 117,381,582 shares issued at September 30, 2007 and December 31, 2006)	1,174	1,174
Series A participating preferred stock ($0.01 par value, 500,000,000 shares authorized and 12,604,918 shares issued and outstanding)	126	126
Additional paid-in capital	10,070,480	9,799,447
Retained earnings	1,387,478	993,821
Accumulated other comprehensive income, net	85,478	44,666
Treasury stock, common, at cost (2,025,045 and 972,685 shares held at September 30, 2007 and December 31, 2006, respectively)	(276,424)	(57,354)

Total stockholders equity	11,268,312	10,781,880
Total liabilities, non-controlling interest and stockholders equity	$ 23,078,534	$ 20,469,492

See accompanying notes to condensed consolidated financial statements.

PART I FINANCIAL INFORMATION (continued)

Item 1. Financial Statements (continued)

BlackRock, Inc.

Condensed Consolidated Statements of Income

(Dollar amounts in thousands, except per share data)

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2007	**2006**	**2007**	**2006**
Revenue				
Investment advisory and administration fees				
Unaffiliated	$ 495,127	$ 158,707	$ 1,169,760	$ 606,748
Affiliated	680,685	115,799	1,878,308	331,395
Distribution fees	32,310	2,263	89,997	7,177
Other revenue	89,957	46,289	262,411	134,131
Total revenue	1,298,079	323,058	3,400,476	1,079,451
Expenses				
Employee compensation and benefits	505,107	198,099	1,270,883	566,993
Portfolio administration and servicing costs				
Unaffiliated	16,308	9,201	47,405	28,378
Affiliated	122,542	7,181	353,609	20,151
Amortization of deferred sales commissions	28,763	1,341	79,034	4,645
General and administration	194,442	75,834	602,290	192,666
Termination of closed-end fund administration and servicing arrangements	128,114		128,114	
Fee sharing payment				34,450
Amortization of intangible assets	31,085	2,394	93,193	6,451
Total expenses	1,026,361	294,050	2,574,528	853,734
Operating income	271,718	29,008	825,948	225,717
Non-operating income (expense)				
Net gain (loss) on investments	117,895	(1,737)	478,458	9,165
Interest and dividend income	20,109	5,668	52,204	16,675
Interest expense	(9,815)	(2,022)	(31,023)	(6,021)
Total non-operating income	128,189	1,909	499,639	19,819
Income before income taxes and non-controlling interest	399,907	30,917	1,325,587	245,536
Income tax expense	63,168	11,108	298,086	89,963
Income before non-controlling interest	336,739	19,809	1,027,501	155,573
Non-controlling interest	81,539	895	354,669	2,394

Net income	$ 255,200	$ 18,914	$ 672,832	$ 153,179
Earnings per share				
Basic	$ 1.99	$ 0.29	$ 5.24	$ 2.38
Diluted	$ 1.94	$ 0.28	$ 5.12	$ 2.29
Dividends declared and paid per share	$ 0.67	$ 0.42	$ 2.01	$ 1.26
Weighted-average shares outstanding				
Basic	128,161,027	64,761,447	128,501,575	64,326,752
Diluted	131,316,455	67,477,536	131,534,188	66,903,553

See accompanying notes to condensed consolidated financial statements.

PART I FINANCIAL INFORMATION (continued)

Item 1. Financial Statements (continued)

BlackRock, Inc.

Condensed Consolidated Statements of Comprehensive Income

(Dollar amounts in thousands)

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2007	**2006**	**2007**	**2006**
Net income	$ 255,200	$ 18,914	$ 672,832	$ 153,179
Other comprehensive income, net of tax:				
Net unrealized gain (loss) from available-for-sale investments	(1,417)	456	(2,288)	507
Foreign currency translation adjustment	24,527	467	43,100	3,793
Minimum pension liability adjustment		379		379
Comprehensive income	$ 278,310	$ 20,216	$ 713,644	$ 157,858

See accompanying notes to condensed consolidated financial statements.

PART I FINANCIAL INFORMATION (continued)

Item 1. Financial Statements (continued)

BlackRock, Inc.

Condensed Consolidated Statements of Cash Flows

(Dollar amounts in thousands)

(unaudited)

	Nine months ended September 30, 2007	2006
Cash flows from operating activities		
Net income	$ 672,832	$ 153,179
Adjustments to reconcile net income to cash from operating activities:		
Non-controlling interest	354,669	2,394
Depreciation and amortization	143,387	29,301
Amortization of deferred mutual fund sales commissions	79,034	4,645
Stock-based compensation	142,329	78,567
Deferred income taxes	(100,576)	(32,965)
Other net gains and net purchases of investments	(584,373)	(3,976)
Earnings from equity method investees	(55,783)	(2,413)
Distributions of earnings from equity method investees	9,375	820
Other adjustments	(1,644)	(2,828)
Changes in operating assets and liabilities:		
Accounts receivable	(195,236)	(66,582)
Due from affiliates	16,578	9,397
Deferred mutual fund sales commissions	(46,203)	1,860
Investments, trading	(20,518)	(17,121)
Other assets	(79,195)	(9,051)
Accrued compensation	(73,381)	21,950
Accounts payable and accrued liabilities	(5,401)	(5,417)
Due to affiliates	(5,981)	67,214
Other liabilities	111,402	8,883
Cash flows from operating activities	361,315	237,857
Cash flows from investing activities		
Purchase of investments	(313,837)	(62,046)
Sale of investments	193,731	18,022
Distributions of capital from equity method investees	5,695	
Net deconsolidations of sponsored investment funds	(7,703)	
Acquisitions, net of cash acquired	(42,272)	389,886
Purchases of property and equipment	(84,940)	(47,014)
Cash flows from investing activities	(249,326)	298,848
Cash flows from financing activities		
Short-term borrowings, net	450,000	
Long-term borrowings, net	694,372	

Dividends paid	(265,587)	(81,134)
Reissuance of treasury stock	47,987	7,464
Purchases of treasury stock	(370,103)	(24,615)
Issuance of common stock		1,196
Subscriptions received from non-controlling interest holders, net of redemptions	204,734	15,735
Excess tax benefits from stock-based compensation	69,390	4,156
Debt held by consolidated sponsored investment funds	180,383	
Other financing activities	(5,990)	(3,622)
Cash flows from financing activities	1,005,186	(80,820)
Effect of exchange rate changes on cash and cash equivalents	43,100	3,793
Net change in cash and cash equivalents	1,160,275	459,678
Cash and cash equivalents, beginning of period	1,160,304	484,223
Cash and cash equivalents, end of period	$ 2,320,579	$ 943,901

See accompanying notes to condensed consolidated financial statements.

PART I FINANCIAL INFORMATION (continued)

Item 1. Financial Statements (continued)

BlackRock, Inc.

Notes to Condensed Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(unaudited)

BlackRock, Inc. and its subsidiaries (BlackRock or the Company) provide diversified investment management services to institutional clients and individual investors through various investment products. Investment management services primarily consist of the active management of fixed income, cash management and equity client accounts, the management of a number of open-end and closed-end fund families and the management of alternative investment funds developed to serve various customer needs. Through *BlackRock Solutions*®, the Company provides risk management, system outsourcing, investment accounting services, advisory and transition management services that combine capital markets expertise with proprietarily-developed systems and technology.

1. Significant Accounting Policies

Basis of Presentation

These condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and include the accounts of the Company, its controlled subsidiaries and other consolidated entities. Non-controlling interest includes minority interest as well as the portion of consolidated sponsored investment funds in which the Company does not have direct equity ownership. All significant accounts and transactions between consolidated entities have been eliminated.

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates and assumptions. Certain financial information that normally is included in annual financial statements, including certain financial statement footnotes is not required for interim reporting purposes and has been condensed or omitted herein. These condensed consolidated financial statements should be read in conjunction with the Company s consolidated financial statements and notes related thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006, which was filed with the Securities and Exchange Commission (SEC) on March 13, 2007.

The interim financial information as of September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited. However, in the opinion of management, the interim information includes all normal recurring adjustments necessary for the fair presentation of the Company s results for the periods presented. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year. Certain amounts in the Company s prior period condensed consolidated financial statements have been reclassified to conform to the current presentation.

PART I FINANCIAL INFORMATION (continued)

Item 1. Financial Statements (continued)
1. Significant Accounting Policies (continued)

Income Taxes

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes and Related Implementation Issues*. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. FIN No. 48 prescribes a threshold and measurement attribute for recognition in the financial statements of an asset or liability resulting from a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

BlackRock adopted the provisions of FIN No. 48 on January 1, 2007. As a result of the adoption, the Company recognized approximately $15,200 in increased income tax reserves related to uncertain tax positions. Approximately $13,600 of this increase related to taxes that would affect the effective tax rate if recognized, and this portion was accounted for as a reduction to the January 1, 2007 balance in retained earnings. The remaining $1,600 balance, if disallowed, would not affect the annual effective tax rate. Total gross unrecognized tax benefits at December 31, 2006 were approximately $52,100. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate at December 31, 2006 were approximately $25,700. As of September 30, 2007, the Company does not anticipate a significant change to the amount of unrecognized tax benefits within the next twelve months.

The Company recognizes interest and penalties related to income tax matters as a component of income tax expense. Interest accrued on uncertain tax positions was approximately $4,600 at December 31, 2006 and $7,100 at September 30, 2007. The Company has not accrued any tax-related penalties.

BlackRock is subject to U.S. federal income tax as well as income tax in multiple jurisdictions. The tax years after 2002 remain open to U.S. federal income tax examination, and the tax years after 2004 remain open to income tax examination in the United Kingdom. Prior to the closing of the Merrill Lynch Investments Managers (MLIM) transaction, BlackRock filed New York State and New York City income tax returns on a combined basis with The PNC Financial Services Group, Inc. (PNC) and the tax years after 2001 remain open to income tax examination in New York State and New York City.

Stock-based Compensation

The Company amortizes the grant-date fair value of stock-based compensation awards made to retirement eligible employees over the required service period. Upon notification of retirement, the Company accelerates the unamortized portion of the award over the contractually-required retirement notification period, if applicable.

Carried Interest

The Company receives carried interest from private equity funds upon exceeding performance thresholds. BlackRock may be required to return all, or part, of such carried interest depending upon future performance of the private equity funds. BlackRock records carried interest subject to such clawback provisions as revenue on its condensed consolidated statements of income upon the earlier of termination of each private equity fund or when the likelihood of clawback is mathematically improbable. At September 30, 2007, the Company had $17,399 of deferred carried interest recorded in other liabilities on the condensed consolidated statements of financial condition.

PART I FINANCIAL INFORMATION (continued)

Item 1. Financial Statements (continued)
1. Significant Accounting Policies (continued)

Goodwill and Intangible Assets

Prior to 2007, the Company performed its annual impairment tests for goodwill and indefinite-lived intangible assets, as required by SFAS No. 142, *Goodwill and Other Intangible Assets*, as of September 30th. During the quarter ended September 30, 2007, the Company changed its annual impairment test date to July 31st in order to provide additional time during the quarter for testing due to the significant increase in these assets as a result of recent acquisitions. Impairment tests performed as of July 31, 2007 and September 30, 2006 indicated that no impairment charges were required. The Company s management believes that this change in the method of applying an accounting principle is preferable under the circumstances and does not result in adjustments to the Company s consolidated financial statements when applied retrospectively, nor would it result in the delay, acceleration or avoidance of recording a potential future impairment. This change in the method of applying SFAS No. 142 had no impact on the condensed consolidated statements of income for the three or nine months ended September 30, 2007 or other prior periods.

Recent Accounting Developments

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements.* SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 requires companies to disclose the fair value of their financial instruments according to a fair value hierarchy (i.e., levels 1, 2, and 3, as defined). Additionally, companies are required to provide enhanced disclosure regarding instruments in the level 3 category (which have inputs to the valuation techniques that are unobservable and require significant management judgment), including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company currently is evaluating the impact adoption will have to its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132*. SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in the funded status in the year in which the changes occur. The statement also requires actuarial valuations to be performed as of the balance sheet date. The balance sheet recognition provisions of SFAS No. 158 were effective for fiscal years ending after December 15, 2006. The valuation date provisions are effective for fiscal years ending after December 15, 2007. The Company adopted the balance sheet recognition provisions of SFAS No. 158 on December 31, 2006 and the impact of adoption was not material to its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure eligible financial assets and liabilities at fair value. The unrealized gains and losses on items for which the fair value option is been elected should be reported in earnings. The decision to elect the fair value option is determined on an instrument by instrument basis, it should be applied to an entire instrument, and it is irrevocable. Assets and liabilities measured at fair value pursuant to the fair value option should be reported separately in the balance sheet from those instruments measured using another measurement attribute. SFAS No. 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. The Company currently is analyzing the potential impact of adoption of SFAS No. 159 to its consolidated financial statements.

PART I FINANCIAL INFORMATION (continued)

Item 1. Financial Statements (continued)
1. Significant Accounting Policies (continued)

In June 2007, the Emerging Issues Task Force (EITF) ratified EITF Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* (EITF 06-11). Under the provisions of EITF 06-11 a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified as nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase to additional paid-in capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. EITF 06-11 should be applied prospectively to the income tax benefits that result from dividends on equity-classified employee share-based payment awards that are declared in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the potential impact of EITF 06-11 to its consolidated financial statements.

2. Investments

A summary of the carrying value of total investments is as follows:

	Carrying Value	
	September 30, 2007	December 31, 2006
Available-for-sale investments	$ 187,337	$ 158,442
Trading investments	361,631	370,718
Other investments:		
Consolidated sponsored investment funds	1,606,296	1,198,422
Equity method	448,802	327,599
Cost method	55,118	24,247
Deferred compensation plan investments	21,567	18,146
Total other investments	2,131,783	1,568,414
Total investments	$ 2,680,751	$ 2,097,574

PART I FINANCIAL INFORMATION (continued)

Item 1. Financial Statements (continued)
2. Investments (continued)

A summary of the cost and carrying value of investments classified as available-for-sale is as follows:

		Gross Unrealized		Carrying
	Cost	**Gains**	**Losses**	**Value**
September 30, 2007				
Available-for-sale investments:				
Sponsored investment funds	$ 152,633	$ 10,596	$ (1,982)	$ 161,247
Collateralized debt obligations	23,328	1,079	(1,201)	23,206
Other	2,812	72		2,884
Total available-for-sale investments	$ 178,773	$ 11,747	$ (3,183)	$ 187,337
December 31, 2006				
Available-for-sale investments:				
Sponsored investment funds	$ 118,147	$ 8,085	$ (583)	$ 125,649
Collateralized debt obligations	27,496	1,866		29,362
Other	3,312	119		3,431
Total available-for-sale investments	$ 148,955	$ 10,070	$ (583)	$ 158,442

The Company has reviewed the gross unrealized losses of $3,183 at September 30, 2007, all of which had been in a loss position for less than twelve months, and determined that these losses were not other than temporary primarily because the Company has the ability and intent to hold the securities for a period of time sufficient to recover such losses. As a result, the Company recorded no impairments on such securities.

During the nine months ended September 30, 2007 and 2006, the Company recorded realized impairments of $3,228 and $2,211, respectively, on certain collateralized debt obligations (CDOs).

PART I FINANCIAL INFORMATION (continued)

Item 1. Financial Statements (continued)
2. Investments (continued)

A summary of the cost and carrying value of trading and other investments is as follows:

	Cost	Carrying Value
September 30, 2007		
Trading investments:		
Deferred compensation plan investments	$ 40,218	$ 43,196
Equity securities	67,817	86,638
Municipal debt securities	235,646	231,797
Total trading investments	$ 343,681	$ 361,631
Other investments:		
Other fund investments	$ 1,980,230	$ 2,110,216
Deferred compensation plan investments	14,100	21,567
Total other investments	$ 1,994,330	$ 2,131,783
December 31, 2006		
Trading investments:		
Deferred compensation plan and other investments	$ 53,306	$ 54,527
Equity securities	139,874	148,025
Municipal debt securities	154,015	154,510
Corporate notes and bonds	13,779	13,656
Total trading investments	$ 360,974	$ 370,718
Other investments:		
Other fund investments	$ 1,512,816	$ 1,550,268
Deferred compensation plan investments	14,074	18,146
Total other investments	$ 1,526,890	$ 1,568,414

PART I FINANCIAL INFORMATION (continued)

Item 1. Financial Statements (continued)

2. Investments (continued)

Included in other investments at September 30, 2007 is $55,118 of investments accounted for using the cost method. FASB Statement of Position FAS 115-1/124-1 requires that a company review cost method investments for other-than-temporary impairment whenever management estimates a fair value for such investments or when events or changes in circumstances have occurred that may have a significant adverse effect on the fair value of the investment. As of September 30, 2007, management reviewed the carrying value of these investments and estimated their aggregate fair value to be $61,708. No impairments were recorded on such investments during the nine months ended September 30, 2007.

The carrying value of investments in debt securities by contractual maturity at September 30, 2007 and December 31, 2006 was as follows:

	Carrying Value	
Maturity date	**September 30, 2007**	**December 31, 2006**
<1 year	$	$ 776
1-5 years	10,061	7,989
5-10 years	30,010	2,772
After 10 years	191,726	156,629
Total	$ 231,797	$ 168,166

The Company consolidates certain sponsored investment funds primarily because it is deemed to control such investments in accordance with GAAP. The investments that are owned by these consolidated investment funds are classified as trading and other investments. At September 30, 2007 and December 31, 2006, the following balances related to these funds were consolidated in the condensed consolidated statements of financial position:

	September 30, 2007	**December 31, 2006**
Cash and cash equivalents	$ 191,488	$ 90,919
Investments	1,872,782	1,469,930
Other net liabilities	(258,881)	(127,266)
Non-controlling interest	(1,458,879)	(1,109,092)
Total exposure to consolidated investment funds	$ 346,510	$ 324,491

BlackRock s total exposure to consolidated sponsored investment funds of $346,510 and $324,491 at September 30, 2007 and December 31, 2006, respectively, represents the fair value of the Company s economic ownership interest in these sponsored investment funds. Valuation changes associated with these consolidated investment funds are reflected in non-operating income and non-controlling interest. Other net liabilities includes $276,198 and $95,815 of debt held by consolidated sponsored investment funds at September 30, 2007 and December 31, 2006, respectively, which are included in other liabilities on the condensed consolidated statements of financial condition.

The Company may not be readily able to access cash and cash equivalents held by consolidated sponsored investment funds to use in its operating activities. In addition, the Company may not be readily able to sell investments held by consolidated sponsored investment funds in order to obtain cash for use in its operations.

PART I FINANCIAL INFORMATION (continued)

Item 1. Financial Statements (continued)
3. Derivatives and Hedging

During 2007, the Company entered into a series of total return swaps to economically hedge market price exposures with respect to seed investments in sponsored investment products. At September 30, 2007, the outstanding total return swaps had an aggregate notional value of approximately $82,000 and net losses of approximately $210 and $3,880 for the three and nine months ended September 30, 2007, respectively, which were included in non-operating income in the Company s condensed consolidated statements of income.

During first quarter 2007, the Company entered into a forward contract to sell 1.2 billion yen in August 2007 as a hedge against the foreign exchange risk associated with a sponsored investment product in Japan. The change in value of the forward contract substantially offsets the change in the value associated with foreign exchange related to the Company s investment in the sponsored investment fund. In August 2007 and November 2007, the forward contract was extended through November 2007 and December 2007, respectively. For the three and nine months ended September 30, 2007, the change in fair value of the forward contracts were immaterial.

For the nine months ended September 30, 2007 and 2006, the Company did not hold any derivatives designated in a formal hedge relationship under SFAS No. 133, *Derivative Instruments and Hedging Activities*, as amended.

4. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three months ended September 30,		Nine months ended September 30,	
	2007	**2006**	**2007**	**2006**
Net income	$ 255,200	$ 18,914	$ 672,832	$ 153,179
Basic weighted-average shares outstanding	128,161,027	64,761,447	128,501,575	64,326,752
Dilutive potential shares from stock options and restricted stock units	2,502,798	2,208,829	2,376,400	2,074,384
Dilutive potential shares from convertible debt	652,630	507,260	656,213	502,417
Dilutive weighted-average shares outstanding	131,316,455	67,477,536	131,534,188	66,903,553
Basic earnings per share	$ 1.99	$ 0.29	$ 5.24	$ 2.38
Diluted earnings per share	$ 1.94	$ 0.28	$ 5.12	$ 2.29

During the three and nine months ended September 30, 2007, 1,545,735 stock options were excluded from the calculation of diluted earnings per share because to include them would have an anti-dilutive effect.

PART I FINANCIAL INFORMATION (continued)

Item 1. Financial Statements (continued)
4. Earnings Per Share (continued)

Due to the similarities in terms between the Company s series A non-voting participating preferred stock and the Company s common stock, the Company considers the series A non-voting participating preferred stock to be common stock for purposes of earnings per share calculations. As such, the Company has included the outstanding series A non-voting participating preferred stock in the calculation of weighted average basic shares outstanding for the three and nine months ended September 30, 2007 and September 30, 2006**.**

5. Stock-Based Compensation

Share-Based Payment

The Company adopted SFAS No. 123R, *Share-Based Payment*, on January 1, 2006, using the modified-prospective transition approach, with no cumulative effect on net income. The total stock-based compensation expense associated with stock-based employee compensation plans was $142,329 and $78,567 for the nine months ended September 30, 2007 and 2006, respectively.

Long-Term Incentive Plans

The BlackRock, Inc. 2002 Long-Term Retention and Incentive Plan (the 2002 LTIP Awards) permitted the grant of up to $240,000 in deferred compensation awards, of which the Company previously granted approximately $230,300. Approximately $210,000 of the 2002 LTIP Awards were paid in January 2007. The 2002 LTIP Awards were payable approximately 16.7% in cash and the remainder in BlackRock stock contributed by PNC and distributed to plan participants. Approximately $20,000 of previously issued 2002 LTIP Awards will result in the settlement of BlackRock shares held by PNC through 2010 at a conversion price approximating the market price on the settlement date.

The settlement of the 2002 LTIP Awards in January 2007 resulted in the surrender by PNC of approximately 1,000,000 shares of BlackRock common stock. Under the terms of the 2002 LTIP Awards, employees elected to put approximately 95% of the stock portion of the awards back to the Company at a total fair market value of approximately $165,700. On the payment date, the Company recorded a capital contribution from PNC for the amount of shares funded by PNC. For the shares not put back to the Company, no dilution resulted from the delivery of stock pursuant to the awards since they were funded by shares held by PNC and were issued and outstanding at December 31, 2006. Put elections made by employees were accounted for as treasury stock repurchases and are accretive to the Company s earnings per share. The shares repurchased have been retained as treasury stock.

Under a related share surrender agreement, PNC committed to provide up to 4,000,000 shares of BlackRock common stock to fund long term incentive programs. The Company granted additional long-term incentive awards in January 2007 which included 1,540,050 restricted stock units that are intended to be settled using BlackRock shares held by PNC in accordance with the share surrender agreement. Of the committed shares available for future awards, BlackRock is able to grant up to approximately $11,000 in additional awards in the period prior to September 29, 2011 and additional awards to be settled with the remaining shares in periods subsequent to September 29, 2011.

PART I FINANCIAL INFORMATION (continued)

Item 1. Financial Statements (continued)
5. Stock-Based Compensation (continued)

Stock Options

Options outstanding at September 30, 2007 and changes during the nine months ended September 30, 2007 were as follows:

Outstanding at	Number of Options	Weighted Average Exercise Price
December 31, 2006	4,457,669	$ 36.90
Granted	1,545,735	$ 167.76
Exercised	(1,192,335)	$ 37.22
September 30, 2007	4,811,069	$ 78.86

As of September 30, 2007, the Company had 3,265,334 outstanding options which were exercisable at a weighted average exercise price of $36.78. The weighted average remaining life of stock options outstanding as of September 30, 2007 was 6.1 years.

The total intrinsic value of stock options exercised during the nine months ended September 30, 2007 was $155,428. As of September 30, 2007, the intrinsic value of in-the-money exercisable and outstanding options was $446,135 and $454,869, respectively.

On January 31, 2007, the Company awarded options to purchase 1,545,735 shares of BlackRock common stock to certain executives as long-term incentive compensation. The options vest on September 29, 2011, provided that the Company has actual GAAP earnings per share of at least $5.20 in 2009, $5.52 in 2010 or $5.85 in 2011. An alternative performance hurdle provides for vesting of the awards based on specific targets for the Company s earnings growth performance to peers over the term of the awards. The options have a strike price of $167.76, which was the closing price of the shares on the grant date. Fair value, as calculated in accordance with a modified Black-Scholes model, was approximately $45.88 per option. The fair value of the options is being amortized over the vesting period as exceeding the performance hurdles was deemed probable of occurring.

Assumptions used in calculating the grant-date fair value for the stock options issued in January 2007 were as follows:

Exercise Price	$ 167.76
Expected Term (years)	7.335
Expected Volatility	24.5%
Dividend Yield	1.0%-4.44%
Risk Free Interest Rate	4.8%

PART I FINANCIAL INFORMATION (continued)

Item 1. Financial Statements (continued)
5. Stock-Based Compensation (continued)

Stock Options (continued)

The Company s expected option term was derived using the mathematical average between the earliest vesting date and the option expiration date in accordance with SEC Staff Accounting Bulletin No. 107. The Company s expected stock volatility assumption was based upon historical stock price fluctuations of BlackRock s common stock. The dividend yield assumption was derived using estimated dividends over the expected term and the stock price at the date of the grant. The risk free interest rate is based on the U.S. Treasury yield at date of grant.

As of September 30, 2007, the Company had $60,841 in unrecognized stock-based compensation expense related to unvested stock options. The Company expects to recognize that cost over a remaining weighted-average period of 4.0 years.

Restricted Stock and Stock Units

Unvested restricted stock and stock unit awards at September 30, 2007 and changes during the nine months then ended were as follows:

Outstanding at	Unvested Restricted Stock and Units	Weighted Average Grant Date Fair Value
December 31, 2006	1,516,063	$ 133.44
Granted	2,517,718	$ 168.12
Forfeited	(80,441)	$ 161.37
Vested	(136,955)	$ 126.45
September 30, 2007	3,816,385	$ 155.98

On January 25, 2007, the Company issued 901,609 restricted stock units (RSUs) to employees in conjunction with their annual service awards. The RSU awards vest over three years through January 2010. The value of the RSUs was calculated using BlackRock s closing stock price on the date of grant, or $169.70. The grant date fair value of the RSUs is being amortized into earnings on the straight-line method over the requisite service period, net of expected forfeitures, for each separately vesting portion of the award as if the award was, in substance, multiple awards.

On January 31, 2007, the Company issued 1,540,050 RSUs to employees as long-term incentive compensation. The RSU awards vest on September 29, 2011 provided that BlackRock has actual GAAP earnings per share of at least $5.20 in 2009, $5.52 in 2010 or $5.85 in 2011. An alternative performance hurdle provides for vesting of the awards based on specific targets for the Company s earnings growth performance to peers over the term of the awards. The value of the RSUs was calculated using BlackRock s closing stock price on the date of grant, or $167.76. The grant-date fair value of the RSUs is being amortized into earnings on the straight-line method over the vesting period, net of expected forfeitures.

PART I FINANCIAL INFORMATION (continued)

Item 1. Financial Statements (continued)
5. Stock-Based Compensation (continued)

Restricted Stock and Stock Units (continued)

At September 30, 2007, there was $434,875 in unrecognized stock-based compensation expense related to unvested RSU awards. The Company expects to recognize that cost over a remaining weighted-average period of 3.6 years.

6. Goodwill

During the first nine months of 2007, the Company recorded goodwill adjustments of $197,504 primarily related to the MLIM transaction as the result of the Company s ongoing review of its purchase price allocation of the net assets acquired in the MLIM transaction. Additional net deferred tax liabilities totaling $157,283 were recorded primarily as a result of $199,018 of adjustments to changes in expected applicable state tax rates, offset by $35,549 related to additional expected compensation deductions and $6,186 of other tax-related adjustments. Additionally, the Company established a reserve and the related deferred tax asset for an out-of-market lease assumed in the MLIM transaction in the net amount of $23,166. **.**

7. Borrowings

Short Term Borrowing:

In December 2006, the Company entered into an unsecured revolving credit facility with a syndicate of banking institutions. This facility, as amended in February 2007 (the 2006 facility), permitted the Company to borrow up to $800,000.

In August 2007, the Company terminated the 2006 facility and entered into a new five year $2,500,000 unsecured revolving credit facility (the 2007 facility), which permits the Company to request an additional $500,000 of borrowing capacity, subject to lender credit approval, up to a maximum of $3,000,000. The 2007 facility requires the Company not to exceed a maximum leverage ratio (ratio of net debt to EBITDA, where net debt equals total debt less domestic unrestricted cash) of 3 to 1, which was satisfied at September 30, 2007.

The 2007 facility was used to refinance the 2006 facility and will provide back-up liquidity, fund ongoing working capital for general corporate purposes and fund various investment opportunities. At September 30, 2007, the Company had $450,000 outstanding under the 2007 facility with interest rates between 5.105% to 5.845% and maturity dates between October 2007 and September 2008.

Long Term Borrowings:

In September 2007, the Company issued $700,000 in aggregate principal amount of 6.25% senior unsecured notes maturing on September 15, 2017 (the Notes). The Notes were issued at a discount of $5,628, which is being amortized over their ten-year term. The Company incurred approximately $4,000 in debt issuance costs, which are included in other assets on the condensed consolidated statements of financial condition and are being amortized over the term of the Notes. A portion of the net proceeds of the Notes was used to fund the initial cash payment for its acquisition of the fund of funds business of Quellos Group, LLC (Quellos) and the remainder will be used for general corporate purposes.

PART I FINANCIAL INFORMATION (continued)

Item 1. Financial Statements (continued)

8. Deferred Mutual Fund Sales Commissions

In April 2007, the Company assumed from a subsidiary of PNC certain distribution financing arrangements to receive certain cash flows from sponsored open-ended mutual funds sold without a front-end sales charge (back-end load shares). The fair value of these assets was capitalized and is being amortized over periods up to six years. The Company also assumed the rights to related distribution and service fees from certain funds and contingent deferred sales commissions upon shareholder redemption of certain back-end load shares prior to the end of the contingent deferred sales period. The Company paid $33,996 in exchange for the above rights.

9. Termination of Fund Administration and Servicing Arrangements with Merrill Lynch

Effective September 28, 2007, the Company insourced certain closed-end fund administration and servicing arrangements in place with Merrill Lynch & Co., Inc. (Merrill Lynch). In connection with this insourcing, the Company terminated 40 agreements with Merrill Lynch with original terms ranging from 30 to 40 years and made a one-time payment to Merrill Lynch of approximately $128,114 on October 31, 2007. The payment is reported as termination of closed-end fund administration and servicing arrangements on the condensed consolidated statements of income and is recorded in due to affiliates on the condensed consolidated statements of financial condition. As a result of these terminations, Merrill Lynch was discharged of any further duty to provide the services and BlackRock was discharged from any further payment obligations. **.**

10. Income Taxes

In the third quarter of 2007, the United Kingdom and Germany enacted legislation which will reduce the corporate income tax in those jurisdictions, effective in April and January 2008, respectively. Accordingly, the Company revalued its deferred tax liabilities attributable to the two jurisdictions. The revaluation of deferred taxes resulted in a tax benefit of $51,400 in the third quarter of 2007.

PART I FINANCIAL INFORMATION (continued)

Item 1. Financial Statements (continued)
11. Supplemental Cash Flow Information

Supplemental disclosure of cash flow information is as follows:

	Nine Months Ended September 30,	
	2007	**2006**
Cash paid for interest	$ 22,910	$ 6,876
Cash paid for income taxes	$ 257,410	$ 127,364

Supplemental schedule of non-cash investing and financing transactions is as follows:

	Nine Months Ended September 30,	
	2007	**2006**
Common and preferred stock issued in MLIM Transaction	$	$ 9,577,100
Issuance of treasury stock	$ 102,735	$ 13,278
Decrease in investments due to net deconsolidations of sponsored investment funds	$ 183,442	$ 7,638
Decrease in non-controlling interest due to net deconsolidations of sponsored investment funds	$ 210,252	$ 8,881
PNC LTIP capital contribution	$ 174,932	$

PART I FINANCIAL INFORMATION (continued)

Item 1. Financial Statements (continued)
12. Commitments and Contingencies

Legal Proceedings

BlackRock has received subpoenas from various U.S. federal and state governmental and regulatory authorities and various information requests from the SEC in connection with industry-wide investigations of U.S. mutual fund matters. BlackRock is continuing to cooperate fully in these matters. From time to time, BlackRock is subject to other regulatory inquiries and proceedings.

The Company, including a number of the legal entities acquired in the MLIM Transaction, has been named as a defendant in various legal actions, including arbitrations, class actions and other litigation and regulatory proceedings arising in connection with BlackRock s activities. Additionally, the investment funds that the Company manages are subject to lawsuits, any of which could harm the investment returns of the applicable fund or result in the Company being liable to the funds for any resulting damages. While Merrill Lynch has agreed to indemnify the Company for certain of the pre-closing liabilities related to legal and regulatory proceedings acquired in the MLIM Transaction, entities that BlackRock now owns may be named as defendants in these matters and the Company s reputation may be negatively impacted.

Management, after consultation with legal counsel, does not currently anticipate that the aggregate liability, if any, arising out of such regulatory matters or lawsuits will have a material adverse effect on BlackRock s financial position, although at the present time, management is not in a position to determine whether any such pending or threatened matters will have a material adverse effect on BlackRock s results of operations and cash flows in any future reporting period.

Indemnifications

In the ordinary course of business, BlackRock enters into contracts with clients and third party service providers. In many of the contracts, BlackRock agrees to indemnify the client or third party service provider in certain circumstances. The terms of such indemnity obligations vary from contract to contract and the amount of indemnification liability, if any, cannot be determined.

In conjunction with the MLIM Transaction, the Company has agreed to indemnify Merrill Lynch for losses it may incur arising from (1) inaccuracy in or breach of representations or warranties related to the Company s SEC reports, absence of undisclosed liabilities, litigation and compliance with laws and government regulations, without giving effect to any materiality or material adverse effect qualifiers, (2) any alleged or actual breach, failure to comply, violation or other deficiency with respect to any regulatory or fiduciary requirements relating to the operation of BlackRock s business, (3) any fees or expenses incurred or owed by BlackRock to any brokers, financial advisors or comparable other person retained or employed by BlackRock in connection with the transaction, and (4) certain specified tax covenants.

Merrill Lynch is not entitled to indemnification for any losses arising from the circumstances and events described in (1) above until the aggregate losses (other than individual losses less than $100) of Merrill Lynch exceed $100,000. In the event that such losses exceed $100,000, Merrill Lynch is entitled to be indemnified only for such losses (other than individual losses less than $100) in excess of $100,000. Merrill Lynch is not entitled to indemnification payments pursuant to (1) above in excess of $1,600,000 or for claims made more than 18 months from the closing of the MLIM Transaction. These limitations do not apply to losses arising from the circumstances and events described in (2), (3) and (4) above, which survive indefinitely.

PART I FINANCIAL INFORMATION (continued)

Item 1. Financial Statements (continued)
12. Commitments and Contingencies (continued)

Indemnifications (continued)

Management believes that the likelihood of any liability arising under these indemnification provisions to be remote and, as such, no liability has been recorded on the condensed consolidated statements of financial condition. Management cannot estimate any potential maximum exposure due both to the remoteness of any potential claims and the fact that items that would be included within any such calculated claim would be beyond the control of BlackRock.

13. Subsequent Events

In June 2007, the Company announced that it had entered into an asset purchase agreement under which it would acquire certain assets of the fund of funds business of Quellos for up to $1,720,000. This transaction closed on October 1, 2007, and BlackRock paid Quellos $562,500 in cash and $187,500 in BlackRock common stock. The common stock will be held in escrow for up to three years and is available to satisfy certain indemnification obligations of Quellos under the asset purchase agreement. In addition, Quellos may receive up to an additional $970,000 in cash and stock over three and a half years contingent upon certain operating measures.

In April 2003, the Company acquired 80% of an investment manager of a fund of hedge funds. On October 1, 2007, the Company paid $27,000 to purchase the remaining 20% of the investment manager.

PART I FINANCIAL INFORMATION (continued)

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Forward-looking Statements

This report, and other statements that BlackRock may make, may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act, with respect to BlackRock s future financial or business performance, strategies or expectations. Forward-looking statements are typically identified by words or phrases such as trend, potential, opportunity, pipeline, believe, comfortabl expect, anticipate, current, intention, estimate, position, assume, outlook, continue, remain, maintain, sustain, seek, expressions, or future or conditional verbs such as will, would, should, could, may or similar expressions.

BlackRock cautions that forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made, and BlackRock assumes no duty to and does not undertake to update forward-looking statements. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

In addition to factors previously disclosed in BlackRock s SEC reports and those identified elsewhere in this report the following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance: (1) the introduction, withdrawal, success and timing of business initiatives and strategies; (2) changes in political, economic or industry conditions, the interest rate environment or financial and capital markets, which could result in changes in demand for products or services or in the value of assets under management; (3) the relative and absolute investment performance of BlackRock s investment products; (4) the impact of increased competition; (5) the impact of capital improvement projects; (6) the impact of future acquisitions or divestitures; (7) the unfavorable resolution of legal proceedings; (8) the extent and timing of any share repurchases; (9) the impact, extent and timing of technological changes and the adequacy of intellectual property protection; (10) the impact of legislative and regulatory actions and reforms and regulatory, supervisory or enforcement actions of government agencies relating to BlackRock, Merrill Lynch or PNC; (11) terrorist activities and international hostilities, which may adversely affect the general economy, domestic and local financial and capital markets, specific industries, and BlackRock; (12) the ability to attract and retain highly talented professionals; (13) fluctuations in the carrying value of BlackRock s investments; (14) fluctuations in foreign currency exchange rates, which may adversely affect the value of advisory and administration fees earned by BlackRock and the carrying value of certain investments denominated in foreign currencies; (15) the impact of changes to tax legislation and, generally, the tax position of the Company; (16) BlackRock s ability to successfully integrate the MLIM and Quellos businesses with its existing business; (17) the ability of BlackRock to effectively manage the former MLIM and Quellos assets along with its historical assets under management; and (18) BlackRock s success in maintaining the distribution of its products.

PART I FINANCIAL INFORMATION (continued)

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

BlackRock, Inc. (BlackRock or the Company) is one of the largest publicly traded investment management firms in the United States with $1.3 trillion of assets under management (AUM) at September 30, 2007. BlackRock manages assets on behalf of institutional and individual investors worldwide through a variety of fixed income, cash management, equity and alternative investment separate accounts and funds. In addition, BlackRock provides risk management, investment system outsourcing and financial advisory services to institutional investors.

On September 29, 2006, BlackRock and Merrill Lynch & Co., Inc. (Merrill Lynch) closed a transaction pursuant to which Merrill Lynch contributed its investment management business, Merrill Lynch Investment Managers (MLIM), to BlackRock in exchange for an aggregate of 65 million shares of newly issued BlackRock common and non-voting participating preferred stock (the MLIM Transaction). At September 30, 2007, Merrill Lynch owned approximately 45.4% of the Company s voting common stock and approximately 49.6% of the total capital stock on a fully diluted basis of the Company and The PNC Financial Services Group, Inc. (PNC) owned approximately 33.7% of the capital stock.

PART I FINANCIAL INFORMATION (continued)

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

BlackRock, Inc.

Financial Highlights

(Dollar amounts in thousands, except per share data)

The following table summarizes BlackRock s operating performance for each of the three months ended September 30, 2007, June 30, 2007 and September 30, 2006 and the nine months ended September 30, 2007 and September 30, 2006. Certain prior period amounts have been reclassified to conform to the current presentation.

	Three months ended			Variance vs.			
	September 30,		June 30,	September 30, 2006		June 30, 2007	
	2007	2006	2007	Amount	%	Amount	%
Total revenue	$ 1,298,079	$ 323,058	$ 1,097,023	$ 975,021	301.8%	$ 201,056	18.3%
Total expenses	$ 1,026,361	$ 294,050	$ 815,022	$ 732,311	249.0%	$ 211,339	25.9%
Operating income	$ 271,718	$ 29,008	$ 282,001	$ 242,710	NM	$ (10,283)	(3.6)%
Operating income, as adjusted [(a)]	$ 423,656	$ 115,266	$ 335,644	$ 308,390	267.5%	$ 88,012	26.2%
Net income	$ 255,200	$ 18,914	$ 222,244	$ 236,286	NM	$ 32,956	14.8%
Net income, as adjusted [(b)]	$ 300,079	$ 71,519	$ 236,626	$ 228,560	319.6%	$ 63,453	26.8%
Diluted earnings per share [(c)]	$ 1.94	$ 0.28	$ 1.69	$ 1.66	NM	$ 0.25	14.8%
Diluted earnings per share, as adjusted [(b) (c)]	$ 2.29	$ 1.06	$ 1.80	$ 1.23	116.0%	$ 0.49	27.2%
Average diluted shares outstanding [(c)]	131,316,455	67,477,536	131,383,470	63,838,919	94.6%	(67,015)	(0.1)%
Operating margin, GAAP basis	20.9%	9.0%	25.7%				
Operating margin, as adjusted [(a)]	37.7%	38.5%	36.1%				
Assets under management ($ in millions)	$ 1,299,556	$ 1,075,016	$ 1,230,086	$ 224,540	20.9%	$ 69,470	5.6%

	Nine months ended		Variance	
	September 30,			
	2007	2006	Amount	%
Total revenue	$ 3,400,476	$ 1,079,451	$ 2,321,025	215.0%
Total expenses	$ 2,574,528	$ 853,734	$ 1,720,794	201.6%
Operating income	$ 825,948	$ 225,717	$ 600,231	265.9%
Operating income, as adjusted [(a)]	$ 1,070,209	$ 361,653	$ 708,556	195.9%
Net income	$ 672,832	$ 153,179	$ 519,653	339.2%
Net income, as adjusted [(b)]	$ 745,945	$ 232,969	$ 512,976	220.2%
Diluted earnings per share [(c)]	$ 5.12	$ 2.29	$ 2.83	123.6%
Diluted earnings per share, as adjusted [(b) (c)]	$ 5.67	$ 3.48	$ 2.19	62.9%
Average diluted shares outstanding [(c)]	131,534,188	66,903,553	64,630,635	96.6%
Operating margin, GAAP basis	24.3%	20.9%		
Operating margin, as adjusted [(a)]	36.9%	35.9%		
Assets under management ($ in millions)	$ 1,299,556	$ 1,075,016	$ 224,540	20.9%

NM Not Meaningful

PART I FINANCIAL INFORMATION (continued)

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)
Overview (continued)

BlackRock, Inc.

Financial Highlights

(continued)

(a) BlackRock reports its financial results on a GAAP basis, however management believes that evaluating the Company s ongoing operating results may not be as useful if investors are limited to reviewing only GAAP financial measures. Management reviews non-GAAP financial measures to assess ongoing operations and, for the reasons described below, considers them to be effective indicators, for both management and investors, of BlackRock s financial performance over time. BlackRock s management does not advocate that investors consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP.

Operating margin, as adjusted, equals operating income, as adjusted, divided by revenue used for operating margin measurement, as indicated in the table below. As a result of recent changes in BlackRock s business, management has altered the way it views its operating margin, as adjusted. As such, the calculation of operating income, as adjusted, and operating margin, as adjusted, were modified in the second quarter 2007 primarily to adjust for costs associated with closed-end fund issuances and amortization of deferred sales costs, as shown below. Revenue used for operating margin, as adjusted, for all periods presented includes affiliated and unaffiliated portfolio administration and servicing costs. Certain prior period non-GAAP data has been reclassified to conform to current presentation. Computations for all periods are derived from the Company s condensed consolidated statements of income as follows:

	Three months ended September 30, 2007	Three months ended September 30, 2006	Three months ended June 30, 2007	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Operating income, GAAP basis	$ 271,718	$ 29,008	$ 282,001	$ 825,948	$ 225,717
Non-GAAP adjustments:					
Termination of closed-end fund administration and servicing arrangements	128,114			128,114	
PNC LTIP funding obligation	13,613	12,045	13,933	39,589	36,068
Merrill Lynch compensation contribution	2,500		2,500	7,500	
MLIM integration costs	6,139	71,456	6,039	19,278	90,580
Quellos integration costs	140			140	
Closed-end fund launch costs	1,875	4,933	19,801	34,828	5,464
Closed-end fund launch commissions	264	973	4,297	5,958	1,387
Appreciation (depreciation) related to deferred compensation plans	(707)	(3,149)	7,073	8,854	2,437
Operating income, as adjusted	$ 423,656	$ 115,266	$ 335,644	$ 1,070,209	$ 361,653
Revenue, GAAP basis	$ 1,298,079	$ 323,058	$ 1,097,023	$ 3,400,476	$ 1,079,451
Non-GAAP adjustments:					
Portfolio administration and servicing costs	(138,850)	(16,382)	(131,077)	(401,014)	(48,529)
Amortization of deferred sales costs	(28,763)				